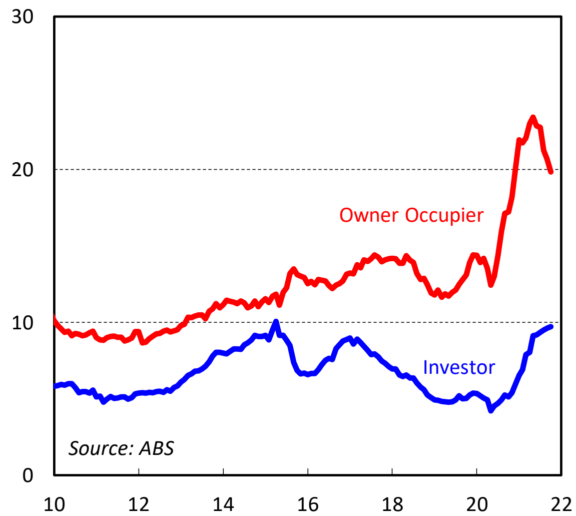
Thursday, 2 December 2021

Housing Finance

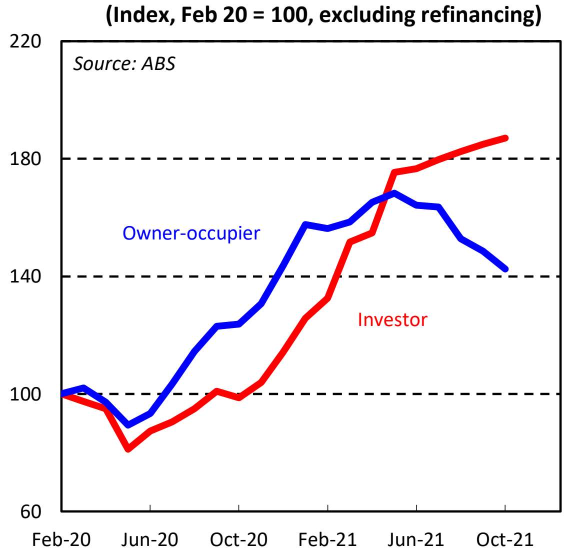
Lending to Investors at a 6½ Year High

- **Housing lending, excluding refinancing, fell 2.5% in October, led by a continued decline in new owner-occupier lending. New loan commitments have fallen in four of the last five months. Delta-related lockdowns have contributed to some of this slowdown. However, there is a clear divergence between lending to owner-occupiers and investors.**
- **New owner-occupier lending fell 4.1% to its lowest level since November 2020. Lending to this segment has dropped for five straight months and is down 15.4% from its peak in May 2021.**
- **In contrast, new lending to investors continued to grow. Investor lending rose by 1.1% in October to its highest level since the series peak in April 2015. Moreover, investor lending has grown for twelve consecutive months and has accelerated 89.6% on a year ago.**
- **Indeed, new lending to investors is now 87.0% above pre-pandemic levels (as of February 2020), while new lending to owner-occupiers has pulled back to be 42.5% above pre-pandemic levels.**
- **Affordability constraints continue to weigh on first-home buyers. The number of new loans to first-home buyers fell 3.8% in October, taking the string of monthly falls to nine. The share of new loans to first-home buyers has fallen from the peak of 36.5% in January to 30.0% in October – the lowest share since mid 2019.**
- **New lending continues to be supported low interest rates, robust housing demand and a recovering economy. However, a growing number of headwinds are impacting lending. Affordability pressures and rising fixed interest rates have impacted demand for new loans, particularly owner-occupiers. Investors appear less sensitive to these hurdles.**

Housing Loan Commitments
($ billions, excluding refinancing)



Housing Loan Commitments
(Index, Feb 20 = 100, excluding refinancing)



Housing lending, excluding refinancing, fell 2.5% in October, led by a continued decline in new owner-occupier loan commitments. New loan commitments have fallen for four of the last five months. Delta-related lockdowns have contributed to some of this slowdown. However, there is a clear divergence between lending to owner-occupiers and investors.

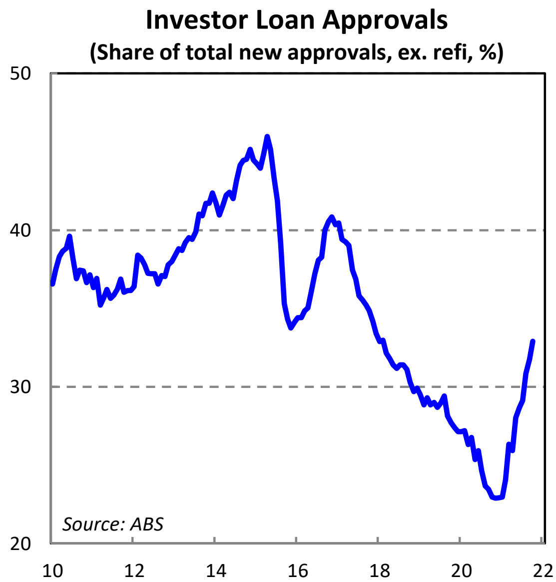
New lending to owner-occupiers was down 4.1% in the month to its lowest level since November 2020. New lending to owner-occupiers has fallen for five consecutive months. New loan commitments to owner-occupiers skyrocketed over the 12 months to May 2021. Over that period, lending rose by 88.4%. It has now fallen by 15.4% from the May 2021 peak.

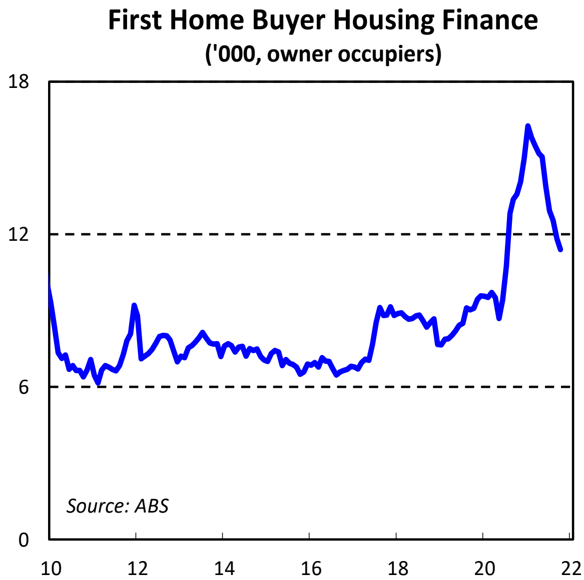
Owner-occupiers, particularly first-home buyers, have been impacted by worsening affordability, as dwellings prices have risen at a pace not seen in decades. This trend is especially evident in NSW, where new lending to first-home buyers only accounts for 27.9% of owner-occupier lending. That compares with the national first-home buyer share of 30.0%. Delta-related lockdowns have also impacted activity, as evidenced by a large fall in lending to owner-occupiers in NSW and the ACT.

While new loan commitments to owner-occupiers have pulled back, new lending to investors continues to grow. Investor lending rose by 1.1% in October to its highest level since the series peak in April 2015. Investor lending has grown for 12 consecutive months and was 89.6% higher over the year.

The current housing boom was initially characterised by strong lending to owner-occupiers and first-home buyers. However, over recent months, lending to investors has accelerated and has approached an all-time high. In fact, new lending to investors is now 87.0% above pre-pandemic levels (as of February 2020), while new lending to owner-occupiers has pulled back to be 42.5% above pre-pandemic levels.

As investor lending accelerates, the share of total lending, excluding refinancing, to investors has risen to 32.9% in October. This share is the highest level since February 2018. The share of investor lending is still well below the peak of 46.0% in 2015. However, the level of new lending is now around the peak.





The Australian Prudential Regulation Authority (APRA) recently tightened macroprudential rules to increase the loan serviceability buffer from 2.5 percentage points to 3.0 percentage points. APRA stated that the impact of the higher serviceability buffer is likely to be larger for investors than owner-occupiers. This is because the buffer applies to all loans, not just the loan that is being applied for, and investors tend to borrow at higher leverage ratios. Other borrowers that were borrowing at, or close to, their maximum serviceability levels may also be impacted.

The new buffer applied from November, so its impact is not fully captured in the October data. This will remain an area to watch over coming months, to monitor the impact of the rules on demand for new loans, particularly investor loans.

Affordability constraints continue to weigh on first-home buyers. The number of new loans to first-home buyers fell 3.8% in October. This is the ninth consecutive month of falls. As a result, the share of the number of new loans to first-home buyers has fallen from the peak of 36.5% in January to 30.0% in October – the lowest share since mid 2019. However, the series is coming down from high levels, as first-home buyers were incentivised by Federal and state government schemes, such as HomeBuilder. As prices continue to rise, affordability pressures are likely to mean that new lending to first-home buyers will continue to gradually decline.

States and Territories

Lending to owner-occupiers was weak across most of the country in October. Lending fell in the ACT (-19.0%), NSW (-8.4%), WA (-7.4%), SA (-4.8%) and Queensland (-3.6%). Tasmania and the NT bucked the trend, increasing by 3.3% and 0.1%, respectively. Owner-occupier lending also increased in Victoria (2.6%), as lending in the state bounced back from a large 12.7% fall in the prior month.

Investor lending rose across most states and territories, except the ACT (-12.4%) and Victoria (-3.8%). The volatile NT (78.7%) led the percentage gains, followed by SA (15.0%), Queensland (8.9%), WA (4.4%), Tasmania (3.3%) and NSW (1.3%).

Outlook

A growing number of headwinds are impacting new housing lending. Affordability pressures and rising fixed interest rates across lenders have impacted the demand for new loans, particularly for owner-occupiers. Investor lending appears less sensitive to these borrowing hurdles and has continued to grow. APRA's recently implemented macroprudential tightening remains an area to watch, particularly in the investor segment of the market.

However, new lending continues to be supported by low interest rates, robust housing demand and a recovering economy.

Jarek Kowcza, Senior Economist
Ph: 0481 476 436
&
Jameson Coombs, Associate Economist
Ph: 0401 102 789

Contact Listing

Chief Economist
Besa Deda
dedab@banksa.com.au
(02) 8254 3251

Economist
Matthew Bunny
Matthew.bunny@banksa.com.au
(02) 8254 1316

Senior Economist
Jarek Kowcza
Jarek.kowcza@banksa.com.au
0481 476 436

Associate Economist
Jameson Coombs
jameson.coombs@banksa.com.au
(02) 8254 0030